

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
REGIONAL OFFICE
630 SANSOME STREET
SAN FRANCISCO 5, CALIFORNIA

November 14, 1949

Mr. Milton P. Kroll
Assistant General Counsel
Office of the General Counsel
Securities and Exchange Commission
425 - 2nd Street, N.W.
Washington 25, D.D.

Re: Arizona Corporation Commission

Dear Mr. Kroll:

The enclosed memorandum reporting the visit which I made to Phoenix on November 3, 1949 will be of interest to you because of the reference to conferences which I had at that time with Mr. Earl Hastings, Director of the Securities Division of the Arizona Corporation Commission, in the course of which he spoke of the proposed new securities law which the Arizona Corporation Commission desires to have enacted.

Yours very truly,

Howard A. Judy
Regional Administrator

Enclosure:

Memo dated 11/14/49

cc: Los Angeles BO

November 14, 1949

MEMORANDUM FOR THE FILE

RE: Arizona Corporation Commission

On Thursday, November 3, 1949, I called at 12:00 Noon on Mr. Earl Hastings, the Director of the Securities Division of the Arizona Corporation Commission, at his office in Phoenix. I explained to Mr. Hastings during the ensuing luncheon period and in the ensuing conference with him which extended up until about four o'clock in the afternoon, that I had called on him to discuss the general subject of cooperation between the California offices of the Securities and Exchange Commission and the Arizona Corporation Commission. I told him that we were especially grateful to him for having seen to it that the San Francisco Regional Office receives advices of permits issued by the Securities Division, since the receipt of such advices enables us to communicate with the issuers who have received permits, to the end that such issuers may receive timely advice as to the application of the federal securities laws to their securities offerings.

Mr. Hastings, who is an alert man in his early forties, said that he had recently taken the position of Director of the Securities Division at the request of the Arizona Corporation Commission. Mr. Hastings said that the request of the Commission had followed upon the activity of a committee composed of business men of Arizona headed by Mr. Jacobsen, Assistant Attorney General of the State of Arizona. The activities of the committee had resulted from the exposure of one or more securities frauds which have been attributable to the inadequacy of the Arizona Securities law and the ineffectual administration of the law by the men who had previously been in charge of the Securities Division of the Arizona Corporation Commission.

Mr. Hastings showed me, but I did not examine, a draft of a new securities law which Mr. Hastings said he and the Arizona Corporation Commission are hopeful will be enacted at a special session of the legislature of Arizona which it is hoped the governor of Arizona will call for late 1949 or early 1950. Mr. Hastings said that he was to see the governor on Friday, November 4, the appointment having been arranged by the Corporation Commission, at which time he intended to present to the governor the facts and arguments bearing upon the desirability of having a new securities law enacted for the state. The present law was enacted in 1910 and has not been amended since its original enactment.

Mr. Hastings said that he had received suggestions from Mr. Milton Kroll of our Washington staff and from others regarding the new securities law and that he would like to submit the draft which he now has of the proposed new law to Mr. Kroll for his comment. Mr. Hastings wished to know if Mr. Kroll would be interested in receiving a draft of the proposed new law and I told him that Mr. Kroll would be interested and would doubtless respond to any request to be made by Mr. Hastings for suggestions.

Mr. Hastings went on to say that under the present legislation and set up of the Arizona Corporation Commission, all powers relative to the issuance of securities are vested in the Corporation Commission which is comprised of three men, all of whom are elderly and each of whom is a political appointee. He further said that the Corporation Commission has appointed him to head the Securities Division and that he has the confidence and full backing of the members of the present Commission, both with regard to bringing about the enactment of a satisfactory securities law and with regard to a general overhauling of the Securities Division. He said that his functions are advisory to the Commission and that he has no power to grant permits or licenses for the sale of securities, that function being performed by a majority of the three members of the Commission. Under the present set up, and under the intended legislation as well, all legal matters pertaining to the functions of the Securities Division will be performed by the Attorney General's staff. Mr. Ralston is the Assistant Attorney General in charge of legal questions for the Securities Division of the Corporation Commission, and Mr. Ralston is able and in entire sympathy with the objectives sought to be brought about by Mr. Hastings.

Mr. Hastings said that the present securities law of Arizona is so defective and the decisions of the Arizona Courts are so inadequate on principles of fraud that the Attorney General's Office is of the opinion that it is almost impossible to prosecute persons perpetrating securities frauds in Arizona for anything more than a misdemeanor. He said that there is one case which he and his staff have pretty fully developed through the taking of testimony from some of the people connected with the enterprise, namely, Road-O-Scope, which is a flagrant fraud. Mr. Hastings said that he has been in consultation with Mr. Ralston and Mr. Jacobsen with regard to Road-O-Scope, and that they are all of the opinion that the principal promoter of Road-O-Scope cannot be reached under the Arizona statute and that the persons who have engaged in the sale of the securities of Road-O-Scope at the instigation of the principal promoter can be prosecuted under Arizona laws for no offenses more substantial than misdemeanors.

I told Mr. Hastings that the California offices of the Securities and Exchange Commission are most anxious to supplement the activities of the Arizona Corporation Commission and that if, after full consideration of the Road-O-Scope case by the Attorney General and the members of the Arizona Corporation Commission, it should be felt that a federal prosecution would be likely to produce more effective results than would prosecution at the hands of the state of Arizona, and Mr. Hastings will advise me of that conclusion, we will be more than glad to investigate the case promptly and seek a federal indictment if the investigation justifies such action. Mr. Hastings said that he would discuss the matter with the Attorney General's Office and with the members of his Commission and would let me know very promptly whether the Commission desires that we step into the Road-O-Scope case.

I also discussed with Mr. Hastings the activities of Mr. Frank S. Rubens, 122 West Washington Street, Phoenix, Arizona, and I told Mr. Hastings that we are very much interested in learning what we can about the activities of Rubens, and other promoters, who are engaged in the sale of oil and gas interests in the State of Arizona. Mr. Hastings said that, in addition to Rubens, there are a number of other persons who have been selling and who are now selling oil and gas interests to members of the public in Arizona. He said that Mr. Williams Blair Townsend, who has practiced for thirty years in Phoenix as an attorney-at-law, is the biggest operator in the purchase and resale of oil and gas leases. Hastings said that Townsend has never

applied to the Arizona Corporation Commission for a permit, but that he has been active in the sale of assignments of State, Federal and private leases over all of the State of Arizona. Hastings also said that Waddell-Duncan Company, of Wilcox, Arizona, has had an Illinois Cease and Desist Order issued against him and is now coming to the Arizona Corporation Commission for a permit. The company is a drilling outfit and has an office at Wilcox, Arizona. The company has sold leases and has drilled a couple of wells. The Glenn Oil Company, of Phoenix, is currently selling stock to the public of Arizona. This company is known to have sold stock also to residents of Oil City, Pennsylvania. The Arizona Corporation Commission has the names and addresses of the Pennsylvania investors.

Mr. Hastings said that there are two oil "hot spots" in Arizona at the present time. The first is the Wilcox-Bowie District, now very active, which is located about fifty miles east of Tuscon, Arizona. This structure extends over into New Mexico into the area where Frank Rubens has a lease which he now proposes to subdivide and sell to Arizona investors. Rubens has just been in to the Arizona Commission for a permit to sell fractional undivided interests in the New Mexico lease and has represented to Mr. Hastings that the assignments which he proposes to sell have been submitted to this office in order that he may verify the position he has taken that the sale of these interests will be exempt from registration under the Securities Act because of the application of Section 3(a)(11) of the Act thereto. The second hot spot is the Winslow-Holbrook area in Northern Arizona. This district is located on the Santa Fe and is Indian land. Selling activity in this area consists of the sale of oil and gas Indian leases.

Mr. Hastings said that he would like very much to have some one from our staff investigate the oil and gas situation in Arizona as he feels that there is a great deal of fraudulent activity in that type of selling, and the Arizona laws are so inadequate that no prosecution could be expected to result from any investigation of these matters by the Arizona Corporation Commission. I told Mr. Hastings that we had suspected that there is a bad oil and gas situation in Arizona and that it is my intention, upon returning to San Francisco, to arrange for Frank Kenamer, an attorney of our staff who is skilled in oil and gas matters, to go to Arizona and investigate the oil and gas situation.

Mr. Hastings said there are a number of other matters involving securities frauds which he is anxious that we investigate. One of these is Western Arizona Metals Consolidated, of which Mr. Saxton is the manager and promoter. Saxton's wife, Elaine, is the secretary of the company and she is also a private investigator operating in Los Angeles. She is an officer of the company also. The company has made application to the Arizona Corporation Commission for a permit but the Commission has taken no action and does not propose to do so until our Los Angeles Office has verified certain matters connected with the situation.

Stanzona Petroleum Corporation is also a matter which Mr. Hastings believes to be fraudulent and which he desires the Commission to investigate.

Mr. Hastings took me to the office of Mr. Ralston in the State Capitol Building and we there conferred with Mr. Ralston and Mr. Jacobsen. Both Mr. Ralston and Mr. Jacobsen are young men and may be characterized as "fire balls". They are intelligent, enthusiastic and most anxious to free the State of Arizona from securities frauds which have plagued the state for

some time due to the inadequacy of the state securities law and ineffective administration thereof. These young men appear to be somewhat of the crusader type and this is especially true of Jacobsen. Jacobsen related the circumstances of his acting as Chairman of the Business Men's Committee which had brought about Earl Hastings' appointment as Chief of the Securities Division of the Arizona Corporation Commission. Jacobsen said that members of the Corporation Commission had desired to appoint a relative of one of them to the post now held by Hastings, and that he (Jacobsen) had flatly opposed the appointment and had urged and successfully brought about the appointment of Earl Hastings. As a result of this run-in with the Corporation Commission, Jacobsen believes that he was shifted from the post then held by him as legal adviser to the Corporation Commission to another post in the Attorney General's Office, which he now occupies, where he is engaged with tax matters. However, Jacobsen and Ralston occupy adjoining offices and it is quite apparent they are in complete harmony and act with the utmost cooperation in matters pertaining to the Arizona Corporation Commission and the Securities Division thereof. Both Jacobsen and Ralston expressed great interest in bringing about complete cooperation between the California Offices of the Securities and Exchange Commission and the Arizona Corporation Commission and said they would welcome any help we might afford in stamping out securities frauds in the state. They also said that they had been studying the question whether fractional undivided interests in oil and gas leases are securities and have arrived at the conclusion that they are securities when the sales of such fractional assignments are coupled with a drilling project or promises of a drilling project. I told Mr. Ralston and Mr. Jacobsen that the Commission had prosecuted some cases involving the sale of undivided interests in oil and gas leases and that, upon my return to San Francisco, I would see that they received a reference to the federal authorities bearing upon the question in which they are interested.

While in Mr. Hastings Office, he arranged for me to visit with Mr. Betts, of the Insurance Division of the Arizona Corporation Commission. During my visit with Mr. Betts I discussed the failure of Arizona Benefit Insurance Company of Bixbee, Arizona, and its vice president, Mr. Anthony S. Deddens to reply to letters which we had written the Company with regard to its failure to comply with the Securities Act. Mr. Betts said that Mr. Deddens had been in to see him just a few days before; that he expected to see Mr. Deddens within a relatively short time and that he would urge Mr. Deddens to cooperate fully with the San Francisco Office of the Securities and Exchange Commission to the end that the company comply with the federal statutes. I asked Mr. Betts if it would be feasible for him to give us advices of the formation of any new insurance companies under the laws of Arizona, as they are formed, in order that we may advise such newly incorporated companies at the outset, of the existence and possible application of the Securities Act of 1933 to their activities. Mr. Betts said that it would be feasible for him to give us such advices and that he would do so. I told Mr. Betts that upon receiving advices from him of the formation of new insurance companies we would send a form letter to such companies advising them of the scope and general application of the Securities Act of 1933 to securities offerings. Mr. Betts wished to know whether it would be proper for him to tell the persons representing the newly formed insurance companies that they would likely receive a letter from us and I told Mr. Betts that it not only would be proper but would be very helpful. I asked Mr. Betts whether any company has been recently formed and he said there had been one which is about ready to incorporate. He said that he will send us advice of this company as well as of all future incorporations.

Other matters discussed with Mr. Hastings were as follows:

San Pedro Mines Company: This is a company to which the Arizona Corporation Commission issued its citation and order on September 19, 1949 directing the San Pedro Mines Company to appear before the Commission on October 10, 1949. This order was followed by an order of October 17, 1949 which continued the hearing before the Corporation Commission until November 19, 1949, in the city of Tucson in order to permit a reorganization of the company to be brought about. I asked Mr. Hastings whether there is anything pertaining to San Pedro Mines Company requiring our attention and he said that in his opinion there is not. It would be well, however, to send our usual form letter and questionnaire to the company.

Gold-O-Lite Super Lifetime Lubricant Company: I discussed this matter, particularly asking Mr. Hastings concerning the professional reputation of Luekowitz and Wien, attorneys of Phoenix who represent the company. Mr. Hastings said that Mr. Luekowitz, who is handling the Gold-O-Lite matter, is completely paralyzed from the neck down but that he is an active attorney and possesses a phenomenal memory. Mr. Hastings said that Mr. Luekowitz had been associated many years ago with an attorney in one of the cities of Arizona other than Phoenix, who was found guilty of a felony. Whether Luekowitz was implicated Hastings does not know but he does understand that Luekowitz was never prosecuted. He said that Luekowitz' practice is almost entirely a criminal practice.

Mr. Hastings introduced me to William T. Wright and Mit Simms, two of the three members of the Arizona Corporation Commission. Mr. William T. Brooks, Chairman of the Commission, was not in Phoenix on the day of my call. Both Wright and Simms were cordial and appeared to be very much interested in having Hastings bring about a close cooperation between the California offices of the Securities and Exchange Commission and the Arizona Corporation Commission. The public press of Phoenix on the day of my visit indicated that Mr. Wright is out to succeed Mr. Brooks as Chairman of the Corporation Commission. The Phoenix Press also contained several editorials and news items relative to city and state governmental activities and it is quite apparent that the city of Phoenix at least is in a ferment of activity with regard to bringing about better government in state and city governmental organizations. The press is critical of the city manager of Phoenix and is very much interested in the question whether the governor shall call a special session of the Arizona legislature. The press favors the holding of a special session. An article appearing in the press on the day of my visit indicated that there is opposition to the calling of the special session by the President of the Senate of Arizona. His public statement was to the effect, however, that it is the governor's function to call a special session, and that if the governor desires to hold a special session and calls it, he will of course cooperate fully in any legislative matters desired to be brought before the special session.

Howard A. Judy
Regional Administrator